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Obey: U.S. falling into 'massive, massive hole'

By: David Rogers
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As Democrats move closer to taking command in Washington, there is growing alarm and anger in the party over the economy Barack Obama will inherit and the huge cost incurred after months of stalemate between Congress and President Bush over how to respond.

Thursday night, the White House was hoping to announce - possibly as early as Friday - plans to stave off bankruptcies in the auto industry by using available Treasury funds, a decision favored by Democrats. But Congress and President Bush remain at loggerheads over any larger fiscal stimulus package - even after leading economists in both parties have urged action.

Democrats are reduced to speaking of a 'jobs salvaging' bill that can only hope to slow the rise in unemployment next year. Discussions have moved past just increasing food stamp and unemployment benefits and also include the possibility of Washington helping workers who lose their jobs to finance COBRA payments needed to keep their family healthcare coverage.

Given the long impasse, speed is a huge priority. The first choice seems to be a single large fiscal-stimulus bill, but it can't be ruled out that the money could move in tranches if other legislative vehicles become available.

Caught in the middle is House Appropriations Committee Chairman David Obey, who must spearhead the recovery package for Obama next month. He told Politico that the transition has proven to be 'a disaster for the country because Bush is sitting around like Hoover did.'

'The target keeps changing, it keeps getting worse,' the Wisconsin Democrat said of new estimates for what will be needed to jolt the economy. 'These are calamitous events. While I think people know the economy is in trouble, I still don't think they have a full appreciation of just how close we are to falling in the pit.'

"The tragedy is [that] immense damage is going to be done to the country over the next 30 to 40 days before Obama takes office, and government is sitting here in neutral trying to decide if it is going to go forward or backward.

"We should have been able to get together with Bush and pass a major package right now. Every day we don't makes this problem deeper and deeper," Obey said. "And the deeper it goes, the longer it is likely to last."

"It is a massive, massive hole that we are about to fall into unless we do something dramatic. And the question is whether it will be met by a massive and effective package."

The White House would argue that Democrats share the blame for failing to grasp a chance to strike a deal on the Colombia trade bill - a Bush priority- in return for stimulus spending. But since the passage of the massive \$700 billion financial markets rescue bill this fall, neither Treasury Secretary Henry Paulson nor the president has had the ability to guarantee Republican votes for any compromise.

This was seen most recently when Senate Republicans last week killed a White House-backed \$14 billion loan package to keep General Motors Corp. and Chrysler LLC afloat this winter. Treasury was still reviewing details Thursday night, but the administration is expected to provide the money now by tapping unspent monies in the financial rescue fund after attaching conditions similar to those in the failed bill.

The auto industry crisis is all part of Obama's inheritance. But the bigger focus is on the stimulus or economic recovery bill.

Only Monday, Speaker Nancy Pelosi (D-Calif.) was still predicting a \$600 billion package of new spending and tax cuts, but that number seems almost certain to grow after a meeting of Obama's economic advisers Wednesday in Chicago.

The drop in consumer spending and business investment suggests a much larger gap needs to be filled: Some say as much as \$700 billion in calendar year 2009 alone.

Wednesday's meeting gave rise to press reports suggesting a new \$850 billion, two-year estimate for the Obama bill. That's too high for Congress, especially the Senate, say Democrats. Much as the top line number makes for headlines, the real challenge is to find the right mix that will be credible -- both to investors and to the bipartisan support needed in Congress.

"It's a God-damn complicated problem," said Obey. "You can't just deal with the injection of money into the system. It's got to be one-part cash and one-part confidence. And if you don't take care of the confidence, the dollar can go to hell, and then we can't even inject the cash."

Tax cuts will be part of the mix but are often less efficient in stimulating demand. At the same time, there is only so much even Washington can spend in a year, and fiscal 2009 could be almost half over even if the bill were enacted by mid-February. Two-year estimates are routine now; as the time frame lengthens, there is a greater willingness to devote more money to longer-term investments in technology and infrastructure.

"People say on an infrastructure package, it has to be stuff on which you can turn a shovel in 30 days," Obey explains. "Then it was 90 days. Well, hell . . . This problem is going to be with us for well past two years, and to me that means a helluva lot more construction projects are eligible even if they don't have the desirable effect of getting a lot of money into the economy in the first six months.... I sure as hell want us to look at options that have impact in the second year.

"I don't think any of us have any real arguments over what ought to be in the package," Obey said. "The question is how tightly you can target it so that it does maximum good."

But he refuses to be drawn into any public discussion of the cost of the bill or its specific components

"I don't think it will be nearly as big as it needs to be," he said. "If I had my druthers and we could find ways to make sure the money gets out the door fast enough to do some good, I think you are dealing with a problem that is well above \$1 trillion. I don't think the package will be anywhere in that neighborhood.

"We aren't anywhere near having specific numbers tagged down yet. What we're trying to do is define the problem. . . . Obama is trying to do two things: define the problem and then come up with solutions that can meet the emergency and hopefully, at the same time, build the future.

"The first job is to make sure the public understands the nature of the problem we are facing," Obey said. And Pelosi is expected to use the opening weeks of the new Congress to try to pound this message home in House hearings.

"You ever see red clay sheer off and fall into a lake?" Obey asked rhetorically. "With this economy, you don't have a few grains of sand each day. You have huge chunks of the landscape falling into the drink."